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STATE FOR SCA/CEN (PERRY), INR/REA (FEINBERG)

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SUBJECT: PHARMACEUTICALS IN TURKMENISTAN: PUBLIC,
PRIVATE, BARTERED

Summary

1. A pharmaceuticals availability crisis in the mid-1990's caused the GOTX to let private business into the national medicine distribution system. Largely as a result of the ensuing private-sector activity, supplies soon reached near-saturation levels. Subsequently, the GOTX began to secure a large portion of its pharmaceuticals requirements from Ukraine as part-payment for Turkmenistan's natural-gas exports. Private pharmacies have now increasingly fallen prey to currency-conversion barriers and unequal competition from state-owned stores. Ukraine's in-kind payments for gas are scheduled for abolition after mid-2006. The obvious concern is that this may trigger an abrupt shortage of drugs. However, various unofficial health-sector contacts here predict other mechanisms will compensate for the end of this particular source of supply. END SUMMARY.

Market size

2. (U) Before the break-up of the Soviet Union, Turkmenistan had about 400 pharmacies throughout the country. The GOTX regulated the number of pharmacies based on the old Soviet ratio of one pharmacy per 10,000 individuals (Turkmenistan's pre-1991 population was around four million.). According to research conducted by Atig, Bristol-Myers Squibb distributor in Turkmenistan, there are now about 360 state-owned and about 30 private pharmacies. Private sellers are concentrated in Ashgabat, with few outlets in the regions: two in Mary and one in Turkmenabat. Based on an estimate by a private pharmacy owner, the average annual turnover of a pharmacy is around \$160,000, bringing the total national market size to an estimated \$62 million.

Market Segmentation

3. (U) The number of listed pharmaceutical items is around 3,500. Cheaper medicines from Russia, Ukraine, India, Turkey and Pakistan dominate the market. West European and American products are imported in much smaller quantities. Among western manufacturers,

Bristol-Myers Squibb and Schering-Plough (U.S.), Ferrosan A/C (Denmark), Gideon Richter A.O. (Hungary), Roche (Switzerland) and Berlin-Chemie (Germany) have a strong presence. Russian and Ukrainian pharmaceuticals are imported in barter deals for Turkmenistan's natural gas and sold at state-subsidized prices. Higher-quality western pharmaceuticals are up to 25 times as expensive.

¶4. (U) The third segment of the market comprises domestically manufactured pharmaceuticals. Turkmendermansenagat Union (Turkmen Pharmaceutical Industry) is an umbrella organization for the four local factories including Ajanta Pharma, a Turkmen-Indian JV. Ajanta medicines sell at very competitive prices, but have a limited product range: antibiotics, saline solution, respiratory diseases and blood circulation medicines. The other factories include Saglyk, Buyan, and Tenekar. These produce basic medicines like aspirin, ointments and absorbent cotton. Last, but not least, is the black-market segment, packed with unlisted or even counterfeited pharmaceuticals.

¶5. (U) The Medial DP Ltd representative characterizes the market as "very saturated, but very interesting." Bristol-Myers Squibb, Ferrosan A/C and Schering-Plough distributors told EconAsst on December 13 during the Annual Healthcare Exhibition of Turkmenistan that the market saturation forces them to analyze demand patterns and concentrate on the niches where they have competitive advantages: dissolvable cold remedies Fervex, Efferalgan Upsa, Upsarin Upsa for Bristol-Myers Squibb; multivitamins for Ferrosan A/C; and medical shampoos, allergy pills and sprays, dermatological creams, and asthma sprays for Schering-Plough.

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¶6. (U) However, according to dermatologist and STD expert Kemal Goshlyev, in his area alone the undersupply of vaccines, anti-virus and immune stimulation medicines, and cancer-treatment aids is very visible. For these medicines, he added, "It looks like one person orders what pharmaceuticals are imported into Turkmenistan. If a medicine is available at one store, it is available everywhere, otherwise, it is not available anywhere."

Distribution network

¶7. (U) Most pharmaceuticals are sold via the state-owned pharmacies under the Turkmenpharmacia umbrella at low-cost. The GOTX maintains a list of medicines that are covered under the State Health Insurance Plan. The plan allows patients to purchase prescribed drugs in state-owned pharmacies at a 90% discount. The GOTX is naturally not interested in increasing its financial burden and prefers to receive lower-priced products, including as payment for gas. As such, a state-dominated system does not facilitate import of modern pharmaceuticals.

¶8. (U) Black market pharmaceuticals are sold relatively openly and in known back alley locations. DCM has been approached by babushkas selling black-market antibiotics and other medicines from Russia right in front of a state run pharmacy. Likewise she and a local vet did a tour of black market pharmaceutical outlets as the latter looked for Russian-origin anesthetics and related drugs to perform a simple dog-spaying procedure. According to the vet, these pharmaceuticals were prohibitively expensive to buy from the state-run stores and frequently were unavailable.

¶9. (SBU) Western pharmaceutical manufacturers distribute via sole, private-sector distributors.

These, however, encounter a number of barriers that prevent them from meeting fully the market demand:

-- Barrier 1: Political agenda. The GOTX is infamous for under-diagnosing a number of serious diseases such as tuberculosis, hepatitis C, HIV/AIDS. This de facto policy impedes pharmaceutical traders from listing and subsequently selling medicines for such diseases. Vaccination is the responsibility of the government; private importers are discouraged from getting involved.

-- Barrier 2: High costs and risks. The GOTX stringently regulates the market. Pharmaceutical businesses are subject to licensing, and every imported pharmaceutical item is required to be listed, at a cost of \$1,400. State-owned pharmacies do not have to obtain licenses. In addition, transportation of certain medical categories, including vaccines, requires special conditions and is expensive. Individual private pharmacies typically lack the size or scale to participate in their commerce.

-- Barrier 3: Currency Conversion. Only the ingenious can find their way around the GOTX's barriers to private sector access to hard currency. Currency-conversion problems left even Turkmenpharmacia and a former self-financing division of the Ministry of Health Medical Industry Inofarm with a debt of \$10 million accumulated from 1997-2002. Former representative of Schering-Plough (1994-2002) and now owner of the private company Dertdesh and sole distributor of Schering-Plough medicines Murad Khalmukhamedov told EconAsst he pays manats to a third offshore company that sells Turkmenistani products overseas for USD. The dollar revenue is used to settle accounts with Schering-Plough.

Comment

110. (SBU) The dominance of the state-owned distribution channels, extensive subsidies for the sale of pharmaceuticals at state prices, and the political

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agenda of the GOTX impedes private pharmaceutical sales growth and restricts private sector decision making, both directly and indirectly. Turkmenistan is supposed to receive the last batch of in-kind payment for gas from Ukraine in the first half of 2006. Health-care specialists here tell us that perhaps half the medicines in state pharmacies currently are made in Ukraine. It might thus seem a likely presumption that the end of the Ukraine barter arrangement will propel drastic shortages of drugs, especially in light of the GOTX's consistently dropping healthcare expenditures. However, most of those same specialists actually do not seem to expect such shortages to occur. They predict that various other ingenious unofficial channels will arise for obtaining and importing the same (large-scale but limited) categories of medicines. End Comment.

JACOBSON